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Approved For Release 2002/08/12 : CIA-RDP79R00890A001100110021-0

NSC BRIEFING

4 November 1959

BACKGROUND

PANAMA

I. Panamanian grievances over Canal Zone policies based on growing nationalism and on a feeling that Panama has long been unjustly treated by the US in the Canal "partnership."

A. Panama wants recognition of its sovereignty in Canal Zone-- at least a titular sovereignty giving it right to fly flag there

1. 1903 treaty gives US "in perpetuity" all rights in Zone which US would have "if it were sovereign," to entire exclusion of exercise of such rights by Panama.
2. Treaty revisions in 1936 and 1955 did not alter this grant.

B. Panamanians want larger share of Canal revenue. (Aquilino Boyd, leader of 3 November "sovereignty march" on Zone, wants 50 percent gross Canal revenues.)

1. US paid Panama \$10,000,000 in 1903; annuity of \$250,000 raised to \$430,000 in 1936, and to \$1,930,000 in 1955.
2. Fifty percent of annual gross Canal revenues would be about \$40,000,000.
 - a. Net profits are usually about \$4,000,000; US defense costs, figured separately, are about \$50,000,000.
 - b. Canal toll charges have not been raised since opening of Canal in 1914.

C. Perennial sore point is disparity of wages received by US and Panamanian workers in Zone.

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CLASS. CHANGED TO: TS G C _____
NEXT REVIEW DATE: _____
AUTH: HR 70-2

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1. In 1955 US agreed to equalize basic wages, but Panamanians still dissatisfied. (US workers still get overseas differential in addition to basic wage and higher-paid jobs reserved for US personnel for security reasons.)

2. US personnel in Zone often undiplomatic in relations with locals.

D. Purchases by Zone authorities of goods from third countries irritates Panamanians.

1. In 1955 US promised, whenever "feasible," to buy from Panama or US, but recently purchased foodstuffs from Netherlands, Denmark, and New Zealand.

E. Businesses in Zone competing with Panamanian ones long a sore point, but now largely done away with.

1. Transisthmian railway is most important such business remaining.

2. In 1955, all non-US citizens, except military, not living in Zone were excluded from using Zone commissaries.

F. Panamanian politicians frequently exploit grievances against US.

II. Since independence in 1903, Panama has been ruled by small oligarchy,

A. Governments characteristically unstable with factions of oligarchy fighting for spoils.

1. Since 1948 there have been 10 presidents, and if incumbent Ernesto de la Guardia completes his term, due to end October 1960, he will be first to do so in 24 years.

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2. Ricardo Arias, Ambassador in Washington and ex-President, is leading contender for May 1960 presidential elections.
3. Arias, the personification of the oligarchy, is choice of pro-govt coalition, but about a dozen dissident factions and parties competing.

B. Governments have done little to improve lot of lower-income groups, which becoming increasingly restless, resentful of oligarchy.

1. Chronic unemployment now reaching record levels.
2. Overcrowded slums in Panama City and Colon bordering Canal Zone are tinderbox for serious outbreaks of violence.
3. Excitable student groups and resentful lower classes being exploited by dissident politicians in search of mass following.
4. Communist party nearly impotent, but individual Communists and/or pro-Communists and ultranationalists trying to channel discontent.

C. Government traditionally relies on direct and indirect income from Canal, largely neglecting potentially rich agricultural lands in interior.

1. Canal operations annually inject about \$56,000,000 into economy, compared with annual budget of \$58,500,000.
2. Over 40% of population lives in provinces bordering Canal Zone.